

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Robert Pacheco Analyst: Kristina North Bill Number: AB 53

Related Bills: See previous analyses Telephone: 845-6978 Amended Date: May 3, 1999

Attorney: Patrick Kusiak Sponsor:

**SUBJECT:** Child Support Payment Deduction/FTB Report To Legislature Regarding Deduction

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED APRIL 20, 1999, STILL APPLIES.

☒ OTHER - See comments below.

### SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow a deduction equal to the amount of court-ordered child support payments made by the noncustodial parent for each child of that parent, not to exceed an amount equal to the tax benefit of the exemption credit allowable for a dependent under the PITL. In order to take the deduction, the noncustodial parent must have paid all court-ordered child support payments, including arrearages, by December 31 of the year for which the deduction is claimed.

This bill requires the Franchise Tax Board to report annually to the Legislature the total number of taxpayers who claim the deduction, their adjusted gross income (AGI), and the total value of the deduction. The Department of Social Services (DSS) also would report on the percentage of child support payments made relative to the total amount of child support payments due and, if available, the percentage of cases receiving payment relative to the total number of cases owed payment.

This analysis will address only those issues that impact the FTB or the collection of state income tax revenue.

### SUMMARY OF AMENDMENT

The May 5, 1999, amendment:

- ♦ limited the deduction amount to an amount equal to the tax benefit of the exemption credit allowable for a dependent (\$227, as indexed annually);

#### Board Position:

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<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
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Department/Legislative Director

Date

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- ◆ limited the deduction to noncustodial parents who have paid all court-ordered child support, including any arrearages, by December 31 of the year in which the deduction is claimed. However, no arrearage payments may be claimed as part of the deduction amount;
- ◆ deleted the definition of "court-ordered child support payments";
- ◆ limited the deduction to those noncustodial parents who do not claim the exemption credit for the dependent;
- ◆ provided a sunset date of January 1, 2003; and
- ◆ added the reporting requirements for the FTB and the DSS.

The May 3, 1999, amendment resolved the constitutional consideration. Except for these changes, the new implementation concerns, and the new revenue estimate, the remainder of the department's analysis of the bill as amended April 20, 1999, still applies.

#### **Implementation Consideration**

- ◆ Since the deduction provided by this bill is limited to the amount of exemption credit allowable, the taxpayer would be required to calculate taxes twice - with and without the deduction -- to assure that the proper deduction amount is claimed. Providing the necessary instructions for these calculations would be difficult for the department.
- ◆ A definition is needed for "child support payments" to ensure that disputes do not arise between the taxpayers and the department over what amounts should be properly included.

Department staff is available to assist the author's office in resolving this and any other concerns identified.

#### **LEGISLATIVELY MANDATED REPORTS**

The Franchise Tax Board is required to report annually to the Legislature the total number of taxpayers claiming the deduction, the adjusted gross incomes of those taxpayers and the total value of the deductions claimed.

#### **FISCAL IMPACT**

##### **Departmental Costs**

With the resolution of the implementation concerns, this bill should not significantly impact the department's costs.

##### **Tax Revenue Estimate**

Based on the data and assumptions below, revenue losses are estimated as follows:

Revenue Impact of AB 53 For Taxable Years Beginning 1/01/99 Assumed Enactment After 6/30/99 Fiscal Years (In Millions)			
1999/2000	2000/2001	2001/2002	2002/2003
-\$65	-\$65	-\$70	-\$70

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Any behavioral improvement in child support compliance due to this proposal is not anticipated to be particularly significant over the initial years. It is estimated that approximately \$1 million in losses would be attributable to taxpayer behavior, primarily from those obligors who currently pay on a regular basis but are occasionally late with their payments.

#### **Tax Revenue Discussion**

Revised revenue losses above reflect a reduction of \$25 million annually for fiscal years 1999/2000, 2000/2001, 2001/2002 and 2002/2003 from the previous version of this bill as amended April 20, 1999. This reduction in losses is attributable to: (1) limiting the deduction to only those obligors who are current (including arrearages for the taxable year and prior years) with their child support payments; (2) limiting the deduction to four years; (3) not allowing an obligor to claim an exemption credit for a dependent with respect to whom the obligor is claiming the deduction; (4) limiting the reduction in tax not to exceed the amount of the exemption credit allowable for a dependent; and (5) allowing the deduction for individuals who pay voluntarily without a court order.

Based on information from the California Department of Social Services and the U.S. Statistical Abstract, it is estimated that approximately 556,000 individuals with average monthly child support payments (current only) of \$350 could qualify for the deduction. Additionally, based on the department's personal income tax model, it is estimated that the average tax benefit would be \$116.

In summary, the total first year revenue loss is estimated to be approximately \$65 million (556,000 individuals x \$116 tax benefit = \$65 million).

#### **BOARD POSITION**

Neutral.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill as amended March 1, 1999.